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FISCAL IMPACT STATEMENT

LS 6056

BILL NUMBER: SB 56

NOTE PREPARED: Jan 19, 2006

BILL AMENDED:

SUBJECT: Pension Relief Fund Distributions.

FIRST AUTHOR: Sen. Harrison

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates the January 1, 2008, expiration date for the additional distributions from the Pension Relief Fund that ensure that at least 50% of the pension liability of each unit of local government is paid from the Pension Relief Fund. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2006.

Explanation of State Expenditures: Under current law, the present value of the shortfall of relief due to the exhaustion of the Pension Relief Fund is \$177.3 M, and this shortfall will begin in 2013. If the 2007 sunset of the 50% guarantee is repealed as proposed in this bill, the present value of the shortfall as of July 1, 2005, increases to \$520.7 M, and the shortfall will begin in 2012. Under both current law and the proposed repealer, the assumed annual rate of return is 7%.

Background on the Pension Relief Fund: The Pension Relief Fund was created in 1977 to help cities and towns meet their police and fire pension obligations. Cities and towns are paying current benefits for police officers and firefighters in the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund (collectively, the Old Funds) while simultaneously funding benefits in advance for the 1977 Police Officers' and Firefighters' Pension and Disability Fund (the 1977 Fund). The major sources of revenue for the Pension Relief Fund include a dedicated portion of cigarette and liquor taxes that totals between \$30 M and \$40 M each year, lottery revenues of \$10 M each year, and annual investment income of \$15 M to \$20 M at an assumed interest rate of 6% per year.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Fund.

Local Agencies Affected: Units with members in the Old Funds and the 1977 Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, the Old Funds, and the 1977 Fund, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.